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Research Paper

A Study on Educational Loan in Tamilnadu

Management

KEYWORDS : Education, Educational loan,

SUBASHINI K Research Scholar, Department of management studies, Vels university, Chennai – 600 117.

Prof. Dr. S. DURAISAMY Department of management studies,Vels university, Chennai – 600 117.

ABSTRACT

Educational loan is now a days is attainment more reputation among the students those who want to pursue for higher education. In which Tamil Nadu is playing main role by providing the Educational loan through various banks and helping the worthy students.

Education is the key, which allows people to move up in the world, seek better jobs and ultimately succeed in their life. In India getting education has been a big problem since long time. A small alternative in the privileged class get access to brilliant education amenities whereas the poor virtually get no education at all.

One main reason for insufficient access to education in India is the high cost of education and lack of access to funding higher education. This paper focuses on Educational loan in Tamilnadu. Although Educational loan is practiced in most of the leading states of India, it is popular in Tamilnadu.

INTRODUCTION:

Education is the process, which enables an individual to adjust himself to the environment. A present day economist is inclined to think "EDUCATION" as a process which makes man economically creative member of the society. The subject matter of education is to develop his personality, for which education is more important. Higher education provides to trained and knowledgeable person to the nations. But the number and quality of such person should be as per the requirements. University provides not only trained manpower but also improve functional efficiency of more engaged in different kinds of productive work, that it makes valuable contribution to the acceleration of development.

EDUCATIONAL LOAN

Most college students have at least one student loan when they graduate (Laing, 2012). Student loan burden has been an increasingly popular topic in the mainstream media. While there is a significant amount of information available about the history of loans, types of loans and the implications of loans when in repayment, there is very little information measuring student's awareness of their loans or more specifically, how they perceive their awareness of their loans. Student loan burden has increased as the cost of higher education has increased and less grant aid has been available to subsidize the increased cost (Laing, 2012). Studies have shown that, despite the rising cost, repayment amounts are at a reasonable level, yet the sticker shock upon exit counselling suggests that students are ignorant of the amount of money they are borrowing to cover the cost of their education (King & Frishberg, 2001).

EDUCATIONAL LOAN IN INTERNATIONAL PERSPECTIVE:

In a growing number of countries throughout the world, public resources are proving increasingly insufficient to finance tertiary education. In these countries, cost-sharing between government and the students is becoming the norm. But cost-sharing cannot be implemented equitably without adequate student support mechanisms for academically qualified but needy students. There are two ways of offering financial support: through targeted scholarship schemes and through student loan programs that make funds available to all students who wish to borrow for their education.

A great number of institutions and countries have introduced loan schemes which are repaid from subsequent earnings after graduation. Although there is a great variety of lending schemes from an organizational viewpoint, the basic principles remain the same. Students receive loans to cover the direct cost of education (tuition fees, education supplies, including computers) and in some cases, living expenses until they finish their studies. Then after a short grace period to find a job, usually from six to twelve months, the graduate starts repaying the loan on a monthly basis.

EDUCATIONAL LOAN IN INDIA:

Educational loans **in** India (popularly known as Education loans) have become a popular method of funding higher education in India with the cost of educational degrees going higher. The spread of self-financing institutions (which has less to no funding from the government) for higher education in fields of engineering, medical and management which has higher fees than their government aided counterparts have encouraged the trend in India. Most large public sector and private sector banks offer educational loans. Under section 80(e) of the Indian income tax act, a person can exempt the amount paid against the interest of the education loan - either for self or for his/her spouse or children - for eight years from the year (s)he starts to repay the loan or for the duration the loan is in effect, whichever is more.

EDUCATIONAL LOAN IN TAMILNADU:

Securing educational loan in Tamil Nadu may sound easy, but is full of obstacles, and formalities. Government, in order to facilitate loan disbursal has simplified the norms; but still there remain many more in place, that come in the way of a student getting educational loan. Some of the challenges faced by students as well as banks; includes customization of loan product to suit the requirements of the students and that of courses; margin money requirements; collateral security sufficient enough to cover the loan amount; proof of appropriateness of the university, college and course applied for; timely approval of loan to meet the admission related deadlines; post disbursal issues etc.

The main focus of educational loan is to provide financial assistance for needy and deserving students with good academic performance and in order to support students for doing higher study, professional education, and technical education in India and abroad. The education loan in Tamil Nadu with a list of banks in Tamil Nadu and maximum loan amount given, its interest rates and lots of other factors. As on 30th Sep 2012, the outstanding amount in educational loan is Rs.8841 crores (within Tamil Nadu).

PERFORMANCE OF EDUCATIONAL LOAN:

The basic characteristic of all student loan schemes is that students are offered the chance to borrow money to help them finance tuition costs or living expenses. After completing their studies, graduates must repay the amount borrowed, with or

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without interest. The success of loans schemes aimed at cost recovery may be ganged by the extent to which effective loans recovery achieved i.e. the value of expected repayments do in fact cover the loan amount received.

EDUCATIONAL LOAN AND ITS COMPOSITION

Education loan is a special purpose loan given by banks and financial institutions to cover the cost of any higher degrees or specialized courses. The education loan provided by banks in India cover the fee Payable to the College, School or Hostel. It also covers the examination fee, library fee, lab fees, caution deposits, refundable deposit asked by the institution. Building fund supported by Institution bills or receipts, Purchase of Books, equipments, instruments, uniforms, Travel expenses/passage money for studies abroad, purchase of computers - essential for completion of the course and any other expense required to complete the course - like study tours, project work, thesis, etc are also covered.

CRITERIA OF EDUCATIONAL LOAN

Banks provide great financial help needed to cover almost all the expenses incurred for a successful completion of the desired course. Banks in India now cover a wide spectrum of courses in their education loan schemes. Catering both to under graduate and post graduate courses, banks readily provide education loans for management, engineering, medicine, MCA, fine arts, designing, architecture, hotel management, agriculture, pure sciences, arts and commerce courses. Banks do consider the reputation and affiliation of institute from where the course is being conducted, before giving any educational loan. Indian banks while providing education loans require that the applicant must be a resident Indian having secured admission in any of the bank's list of approved course or universities. Whether you get 100% of the cost of education as education loan or not, depends on individual banks.

OTHER QUALIFYING CRITERIA OF EDUCATIONAL LOANS IN INDIA

Anyone between 16-30 years of age, who qualifies otherwise, can get an educational loan from banks in India. The amount of loan provided by banks depends on many factors. Professional courses like management, engineering, medicine etc. will be give higher loan amounts as compared to B.A. or M.A. Secondly, if you are pursuing a course abroad you are likely to get a bigger educational loan as compared to courses with Indian universities. Bank readily provides loan up to 15 lakhs for studies abroad, while they can lend up to 7.5 lakhs for courses within India.

DOCUMENTS REQUIRED FOR EDUCATIONAL LOAN

To get an education loan from a bank one has to submit certain documents to the bank. These include, income proof of the co-applicant, proof of age which is usually the birth certificate, residence proof, latest mark sheet of the student, letter of admission from an institute, a document detailing the cost breakup of course. If a student wants to go abroad for studies, the banks will ask for recommendation letter from the related University's head of department, approved visa documents, travel documents, GRE/GMAT/SAT scores.

EDUCATIONAL LOAN AND MINISTRY OF FINANCE

Government takes an initiative to render financial assistance to meet the higher education expenses. Nowadays it is easy to get assistance with banks. Former finance minister Mr.P.Chidambaram made the statement during 2005, "Education has been democratized. The Government is paving the way to facilitate education for all. It would therefore be impossible to give scholarship to the entire community of students. In such a situation, financial assistance/support has become inevitable.

REPAYMENT PERIOD

1. Normally banks allow the applicant to suspend their repayment. Most lenders insist on education loan repayment to start within 1 year of completing the course or six months of getting a job, whichever is earlier.

2. Interest amount can be paid during the course tenure and the actual EMI that includes both principal and interest starts after the course is completed.

3. The EMI starts immediately after the loan is availed. If you opt for this option then the interest rate charged is lower.

INTEREST RATE

The interest rate is most important factor for any loan and the same goes for an education loan as well. The interest rate determines the overall cost of the loan. Education loan rates are usually lower than the interest rate charged on a personal loan but slightly higher than the home loan rates. The rate charged differs from lender to lender and also depends on the loan amount. Higher the loan amount, higher is the interest charged and vice-versa. Some banks offer a 'fixed' rate of interest while others offer 'floating' rate of interest. So if the difference between the two types of rate is only of around 1% then it better to go in for a fixed rate as these loans have shorter repayment period of 5 to7 years.

PROCESSING FEES

The processing fee on an education loan differs from bank to bank. In fact many banks do not charge any such fee but on the other hand there are some private banks that charge as much as 2.25% of the loan amount as processing fee. So make sure that if your lender is demanding for a processing fee then you are not caught in the trap.

MARGIN MONEY

Like for any other loan, you have to pay the margin money in education loan too. Margin money is the percentage of amount that the applicant needs to pay while availing the loan. The margin for most banks differs from 10% to 25% and this margin also varies according to the loan amount. Generally this margin is better known as a down payment.

PRE-PAYMENT PENALTY

Normally a pre-payment is charged if the borrower plans to prepay his loan but in case of education loan, most banks allow a pre-payment with no extra charges or penalty.

COLLATERAL

The Reserve Bank of India and the Indian Banker's Association have outlined the nation's Comprehensive Educational Loan Scheme whereby a loan amount up to 7.5 lakhs can be sought by students for pursing their education in India and for those who are looking to study abroad a loan of 15 lakhs can be availed. Following this most banks are demanding collateral or a security of comparable value if the loan amount exceeds 7.5 lakhs. Banks also ask for a Coobligation of parents/guardians/ a related third-party along with an assignment of the expected future income of the student in order to calculate the repayment period.

EXPENSES COVERED BY EDUCATION LOAN

An education loan generally covers most expenses incurred during the period of study. Under most cases the expenses that are included in an education loan are:

1. Fees payable to college or school and Hostel including the tuition fee

2. Fees payable to College or School and Hostel including the tuition fee.

3. Examination, library and laboratory fees.

4. Purchase of Books, Equipments, Instruments and Uniforms.

5. Caution deposit, building fund, refundable deposit supported by the institution's bills or receipts.

6. Any other expenses required to complete the course like study tours, project work, thesis, etc.

Today almost all the banks are ready to support your pursuit for excellence through the medium of education loans but an applicant should be alert while finalizing the deal.

NEW INTEREST FREE EDUCATIONAL LOANS ANNOUNCEMENT BY INDIAN GOVERNMENT

The new scheme announced by center says Students from families with earnings less than 4.5 lakhs per annum will be eligible for this scheme. Only those enrolled in recognized professional courses can avail of this scheme. This would include education institutions established by Act of Parliament, institutes recognized by relevant statutory bodies, IIMs and other institutions set up by the central government. The actual interest will be paid by the government to the bankers. It is really good initiative by the government to help the poor students. This scheme will be applicable from the academic year 2009-10. The implementation and monitoring of the scheme will be finalized in connection with Canara Bank. The Prime Minister Dr. Manmohan Singh had announced the scheme in his Independence Day address.

EDUCATIONAL LOAN REPAYMENT:

The good thing with education loans is that you don't have to start repaying them immediately like most other loans. The general criteria adopted by banks for repayment is that it starts 1 year after course completion or 6 months after obtaining employment (whichever is earlier). The education loans are available for decently long tenures of up to 7 years, and even more in some cases. This repayment tenure includes the moratorium period. Good banks provide hassle free services and speedy loan approval process.

CONCLUSION

Educational loan has frequently staved off the middle class Indian student from higher education. Experts consider that getting a loan sanctioned by a bank, whether it is to pursue a degree abroad or from a premier institute in India. Banks have a variety of educational loan schemes for graduate and postgraduate studies in India. They prefer giving loans to commendable students in order to be doubly sure that the applicant will not turn into a nonpayer. Academic background of the student and the credibility of the institute that he or she is applying to are undertaken to avoid any trouble.

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